

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 97-009-G - ORDER NO. 97-645
JULY 31, 1997

IN RE: Annual Review of Purchased Gas)	ORDER DENYING
Adjustment (PGA) and Gas Purchasing)	PETITION FOR
Policies of South Carolina Pipeline)	REHEARING AND/OR
Corporation.)	RECONSIDERATION

This matter comes before the Public Service Commission of South Carolina (the "Commission") on the Petition for Rehearing and/or Reconsideration of our Order No. 97-477 filed by the Consumer Advocate for the State of South Carolina (the "Consumer Advocate").

By his Petition, the Consumer Advocate challenges the Commission's approval of the acquisition of 75,700 mcf/day of firm transportation ("FT") capacity from Transcontinental Gas Pipe Line Corporation ("Transco") beginning in November 1997. The grounds for the Consumer Advocate's request for rehearing and/or reconsideration are contained in paragraphs 5-10 of his Petition. The Commission will briefly address each of the grounds below.

In paragraph 5 of the Petition, the Consumer Advocate contends there is no basis in the record to find that additional FT capacity is necessary to insure system reliability. To the contrary, the record demonstrates that, particularly considering the severe time limitations associated with the capacity available

from South Carolina Pipeline Corporation's ("SCPC's") liquefied natural gas ("LNG") facilities, along with other factors, the additional Transco capacity will add needed reliability to SCPC's system. See, e.g., Tr. p. 15, line 13- p. 16, line 12; p. 233, line 12 - p. 241, line 3. The fact that SCPC has not previously depleted LNG reserves does not mean that the Transco capacity will not improve system reliability. In addition to the time limitations presented by the LNG capacity, the Salley facility has no liquefaction capability and the Bushy Park facility is approaching the end of its expected useful life. See Tr. p. 35, line 11 - p. 36, line 11.

In paragraph 6, the Consumer Advocate contends that the reasons given for the anticipated growth on SCPC's system are speculative and that the record shows no need for the additional capacity. SCPC's evidence regarding future growth was not merely speculative but was based upon the fact that SCE&G's management had approached SCPC to begin discussions about an increase in FT contract demand to replace its propane air facilities, and upon documented record economic growth in South Carolina. See Tr. p. 237, line 18 - p. 238, line 8. This constitutes probative evidence supporting the Commission's conclusions. The Merrimack study, SCPC's IRP, and SCANA's Form 10-K referred to by the Consumer Advocate do not contradict these conclusions. The Form 10-K in particular did not address SCPC's capacity needs, but indicated that gas supplies were adequate to meet existing customer demand and to accommodate growth. See Tr. p. 65, lines

18-23.

In paragraph 7, the Consumer Advocate alleges that the Commission completely eliminated SCPC's LNG reserves in determining that the reserve margin was reasonable. This is incorrect. The Commission did not eliminate the LNG reserves from consideration, but instead recognized the time limitations associated with the LNG capacity. It was undisputed that the capacity available from SCPC's Salley facility is limited to 90,000 mcf/day for only 10 days and that the capacity available from Bushy Park is limited to 60,000 mcf/day for only 16 days. See Tr. p. 234, line 21 - p. 235, line 5. The Commission properly took into account these limitations in assessing the reasonableness of SCPC's reserve margin.

In paragraph 8 of his Petition, the Consumer Advocate challenges the Commission's conclusion that it would be considerably more expensive to obtain additional capacity in the future. He contends that the Transco witness' testimony to that effect was speculative and not supported by the evidence of record. He also contends that SCPC's assertions regarding full subscription of capacity on the Sunbelt and Southern Natural Gas ("SNG") systems are unsupported by reliable evidence. We hold, however, that Ms. Craddock's expert opinion as to the cost of additional capacity was reasonably based upon, and supported by, her experience with similar pipeline projects. See Tr. p. 222, line 1 - p. 225, line 12. Likewise, SCPC's assertions as to Transco and SNG being fully subscribed are based on the testimony

of a credible and reliable company witness with firsthand knowledge about the Transco and SNG systems. See Tr. p. 239, lines 14-18.

In paragraph 9, the Consumer Advocate contends SCPC testimony concerning the lack of cost benefits from eliminating existing capacity entitlements was speculative. This testimony, however, was based upon the witness' knowledge of past cost shifting between SCPC and Atlanta Gas Light ("AGL"), two of the largest customers on SNG's system. This conclusion was reasonable and reliable and the Consumer Advocate's allegations to the contrary are therefore without merit.

Also in paragraph 9, the Consumer Advocate denies that his witness admitted having conducted no independent study to support his recommendation, contending that the witness merely asserted that the burden of proof was on SCPC to show the acquisition of additional capacity was beneficial. While Mr. Hornby did assert that SCPC had the burden of proof, in doing so he clearly implied, at the very least, that he had conducted no study:

I can certainly give you a good estimate based on a study. But, having been hired on a minimal contract, with a couple of weeks to do this work - and, as I said, I mean, I don't see the burden of proof has to fall on the Consumer Advocate....

Tr. p. 294, lines 10-15.

Finally, the Consumer Advocate asserts in paragraph 10 that the Commission erroneously found that the increase to core customers as a result of the Sunbelt FT acquisition would be only approximately 2.8 cents per dekatherm. The Consumer Advocate

erroneously contends that Ms. Walker's calculation to that effect applied only to the commodity cost of gas and that there would be an additional increase in demand costs to customers. SCPC's tariff allocates all demand costs associated with reserve capacity to the commodity cost of gas calculation ("WACOG"). See Tr. p. 264, lines 7-9; Order No. 97-477 at 7 ("The cost [of the additional 75,700 mcf per day of capacity from Transco's Sunbelt Expansion Project] is to be recovered through the weighted average cost of gas (WACOG)."). Thus, Ms. Walker's calculation included all of the demand costs related to the Sunbelt FT capacity as this capacity will have no effect on the SCPC demand rates.

For similar reasons, the Consumer Advocate's calculation of a 31% increase in demand costs for SCE&G customers is also incorrect. Again, he improperly allocates the increase from the additional Transco capacity to the demand component when these costs will actually be recovered through SCPC's WACOG. Assuming an increase of approximately 4.1¢ per therm, Hearing Exhibit #13, the additional Transco capacity would increase the total gas cost of an SCE&G customer by less than 5%. See Hearing Exhibit #11 (CLW-2) ($\$0.04065$ divided by $\$0.82670 = 4.9\%$). It should also be noted that this estimate does not take into account the fact that the increased costs can be mitigated somewhat through a capacity release program, under which 100% of the revenues generated will be applied to the WACOG. See Tr. p. 43, lines 11-16; Order No. 97-477 at 8 ("We have examined this matter, and we believe that 100% of the revenues from any capacity release should be applied to the

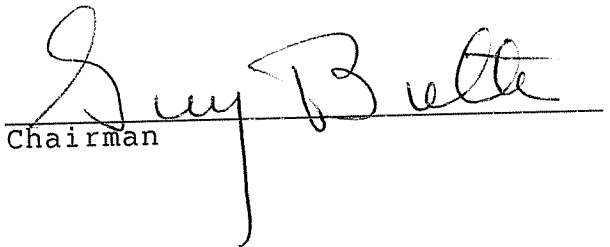
WACOG.").

In summary, the Consumer Advocate ignores the substantial evidence of record to the effect that SCPC does not have the ability to turn interstate pipeline capacity on and off as needed, or to determine when new capacity is constructed. Thus, SCPC must exercise its judgment about whether to purchase capacity at the time that it is made available, with due consideration not only for present needs but, more importantly, for future needs.

For all of the above reasons, the Consumer Advocate's Petition for Rehearing and/or Reconsideration is without merit and is denied.

This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Executive Director

(SEAL)